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Pensions&Investments

The Newspaper of Corporate and Institutional Investing

$9 An Issue $135 A Year

AT DEADLINE

NYC Employees' hikes rate

The board of trustees of the New York City Employees' Retirement System approved a measure to increase to 9% from 8.25% the interest rate assumption of the fund.

The actuarial change could result in an annual savings of $200 million in city pension contributions, according to Elizabeth Holtzman, the city's comptroller.

The change must be approved by the state Legislature.

The state of Pennsylvania reportedly is reviewing its contributions to the Public School Employes' Retirement System.

Fotex markets offering

Fotex, a Hungarian photo processing company, is in the market with a $50 million depository share offering, a portion of which will be privately placed with U.S. institutional investors under the Securities and Exchange Commission's rule 144A.

The proceeds of the transaction will be used for the purpose of acquiring specialty retailing companies.

Salomon Brothers Inc. is the manager for the issue.

CBOE broadens listings

The Chicago Board Options Exchange plans to list options on three foreign stock indexes, under

Continued on page 35

INSIDE

Illustration by Douglas Klauba

First impressions deceive

The wizardry of the 1990 budget reconciliation act, with provisions supposedly aimed at better securing employee benefits, actually could prove detrimental to the plans in the long run. In Commentary, Page 16.

Economy may win in Gulf war

AP Wide World Photos

The success of coalition forces in the Persian Gulf should spur an economic boom in the United States.

By Barry B. Burr and Marlene Givant Star

The Allied victory in the Gulf war also might be a victory for the economy, but it won't necessarily boost investor enthusiasm.

The end of the war could speed up a U.S. economic recovery by boosting consumer confidence and business activity, according to many, but not all, analysts and economists interviewed last week.

The success of the U.S.-led coalition in defeating Iraq has created a euphoria in the economy, evident in the rally in the stock market since the start of the air campaign Jan. 16.

But experts differ on whether the market boom will outlast the war.

The war's end is going to be a "definite plus" for the economy, said Robert Dederick, executive vice president and chief economist at Northern Trust Co., Chicago.

"It means oil prices will stay low and drop from current levels

See **Victory** *on page 33*

Pension funds cut allocations to realty

Fixed income benefits from asset shifts

By Steve Hemmerick

Avon Products Inc.'s pension fund is liquidating its real estate investments while other funds are reducing or considering reducing their realty allocations.

The reasons, according to consultants and pension executives, are unanticipated higher volatility and lower returns in some sectors of real estate.

While executives for a few pension funds already have begun a liquidation or reduction, more pension funds might follow their lead as consultants revise asset allocation studies and rethink their volatility and return assumptions about real estate.

The recent allocation change is unlike previous withdrawals of some pension funds from open-end real estate funds. Plan sponsors involved are not planning to put the money into other forms of real estate, such as direct investments, but to channel the money into other asset classes.

The falling real estate market has prompted trustees for the $408 million pension fund of Avon, New York, to begin to liquidate the fund's real estate investments.

Elio Parroni, director of trust investments for Avon, said he has asked for withdrawal of $22 million from an open-end fund with J.P. Morgan Investment Management, New York, and $7 million from an open-end fund with Wachovia Real Estate Fund, Winston-Salem, N.C.

Avon trustees also are searching for buyers for their $10 million interest in Copley Institutional Investors Fund II and $7.5 million investment in an Equitable timber real estate fund. Mr. Parroni said Avon wants to put the money in bonds.

Trustees for the $3.4 billion pension fund at Xerox Corp., Stamford, Conn., have decided to passively reduce their investment in real estate to 7% from 10% of assets, said Gerard J. Paolini, manager for trust investment strategy.

That reduction will come from the maturation of some closed-end real estate funds, and the percentage growth in other asset classes achieved in part by not putting more money in real estate.

In explaining the decision, Mr. Paolini pointed to the nearly 20% vacancy rate in office properties, the relatively poor five-year outlook for real estate and the relatively high fees paid to real estate managers.

He also said he believes there are better opportunities in other market sectors, such as in private placements investments.

Pension trustees at the New

See **Reality** *on page 35*

Photo by Margaret Price

Hungarian people must cope with high inflation and a devalued currency as the economy sheds the vestiges of Communist rule.

Pitfalls are plentiful in Hungarian market

By Margaret Price

BUDAPEST, Hungary — If the stock price of IBUSZ, Hungary's largest tourist agency, is any barometer for Hungary's overall economic health, investors have good reason to beware of this emerging market.

Special report on the world's emerging markets. Page 21.

In June, IBUSZ became the first stock floated on the reopened Budapest Stock Exchange. After an early rally, the price sits below its new-issue level. And, overall trading on the almost 9-month-old exchange, reopened last year after 42 years, remains quiet, with few investors to be found.

This picture is a far cry from the widespread ebullience that greeted Hungary's end to communism. In October 1989, the country adopted a new constitution. Last spring, the country held free elections and formed a coalition government.

See **Hungary** *on page 31*

NEWS DIGEST

AP/Wide World Photos

Thailand, where preparations for the 200th anniversary of Bangkok's founding are under way, is among the Far East countries drawing attention from institutional investors. Page 21.

Sponsors, managers and consultants, awaiting the Labor Department's 404(c) proposal, are attempting to assess the impact of the new regulations. Page 6.

The Bush administration's proposed banking system overhaul leaves industrial companies uninspired. Page 20.

***P&I* announces the Efficient Index** will become a regular feature of the Statistically Speaking page. Page 28.

SPECIAL REPORT: EMERGING MARKETS

Scanning the globe for lucrative opportunities, especially in the Far East and Latin America, investors and other institutions are exploring the world's developing markets. Page 21.

FINANCING

Envirodyne Industries' sale-leaseback of processing equipment after its buy-out offered better terms than bank loans. Page 3.

INTERNATIONAL

The economic picture in Hungary is anything but rosy, giving investors cause to approach this market with caution. Page 1.

The California Teachers' fund's plan to invest $1.5 billion overseas has managers in a scramble to meet state minority requirements. Page 4.

REAL ESTATE

Xerox, Avon and New Hampshire are among the pension funds cutting, or considering a reduction, in their real estate holdings. Page 1.

Purchasing 20% of Catellus Development was not the bad investment described by a state legislator, California Public Employees' fund officials contend. Page 27.

DEPARTMENTS

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Money manager survey due

Questionnaires for *Pensions & Investments'* annual survey of the largest institutional investment management firms are in the mail. In order for your firm to be included in the May 20 special issue, completed forms must be returned by March 18. If you have not yet received a questionnaire and wish to receive one, contact Christine Philip, directory coordinator, at (312) 649-5217.

Safeguarding participants

SEC eyes defined contribution plans

By Joel Chernoff

WASHINGTON — Staff of the SEC's division of investment management is exploring whether plan participants — particularly those in rapidly growing defined contribution plans — receive adequate protection under the private pension law and other regulations.

This fresh look comes as part of the Securities and Exchange Commission's pending overhaul of the 1940 Investment Company Act, the statute governing mutual funds. The issue was raised by the Investment Company Institute, the Washington-based trade association representing mutual funds, which seeks to apply SEC regulation to competing bank and insurance company pools holding pension assets.

But Marianne K. Smythe, the new director of the SEC's investment management division, warns the staff is "very early in this particular part of the review," and has not yet discussed the matter with the Department of Labor. Still, the staff is interested in protections afforded plan participants and adequacy of disclosure on their investments, she said.

The ICI proposal would repeal exemptions in the 1940 law as well as the 1933 Securities Act that remove bank and insurance company collective funds from SEC regulation. It has elicited howls of protest from bankers and insurance company officials. Insurance company separate accounts basically are exempted under the same provision.

The ICI wants to impose SEC rules on bank and insurance company pools "as a barrier to competition," said Carl Wilkerson, senior counsel, American Council of Life Insurance, Washington. "It's a lot of hooey they're putting in there about consumer protection and conflicts of interest."

The issue has created "an unholy alliance" between the ACLI and the American Bankers Association, two organizations whose aims often are at odds with each other, noted Kathryn McGrath, a partner with the law firm of Morgan, Lewis & Bockius, Washington, and Ms. Smythe's predecessor at the SEC.

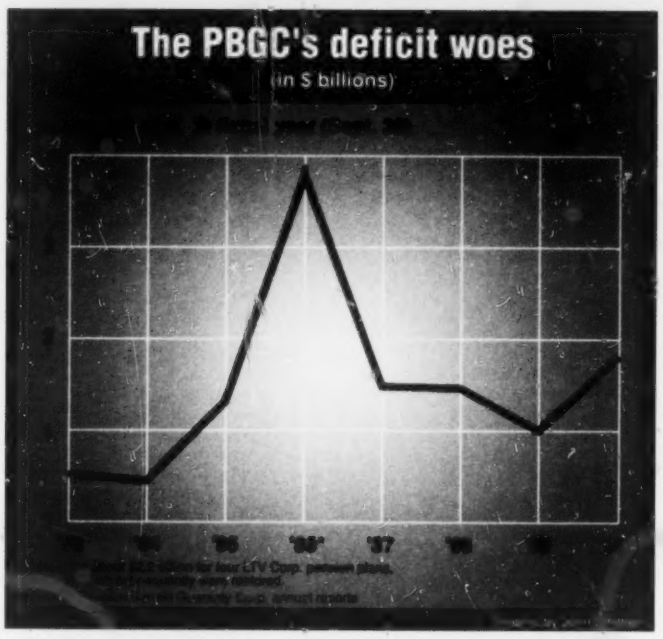
Marianne K. Smythe said the SEC is in the early stages of reviewing federal regulations.

Motivations aside, the ICI argued in a filing with the SEC that the evolving market for defined contribution plan assets requires elimination of the exemption for bank and insurance company pools.

Since 1970, the ICI asserted,

See **Review** *on page 33*

PBGC trying to shrink deficit



By Joel Chernoff

WASHINGTON — With a deficit now approaching $1.8 billion, the Pension Benefit Guaranty Corp. is focusing on three ways to shrink its future losses.

The PBGC is encouraging better funding of pension plans, by pressuring plan sponsors and their control groups and by publicizing poor funding practices.

The agency also is discouraging termination of underfunded plans, through negotiations and litigation strategies, including recent efforts to restore three terminated plans to The LTV Corp. In addition, it is maximizing recoveries from terminated plans.

"There are some very large losses out there which we have to somehow avoid," said James B. Lockhart III, PBGC executive director. "We can't see our premiums escalate year after year."

But the agency's aggressive posture has not been without controversy — particularly its efforts

See **PBGC** *on page 34*

Funds to quiz execs in takeover

By Hillary Durgin and Curtis Vosti

Institutional investors will quiz executives of AT&T and NCR about NCR's new employee stock ownership plan and potential court battle over voting rights in its takeover fight with AT&T.

The battle for control of NCR Corp. accelerated in past weeks, as the Dayton, Ohio-based company established a $500 million ESOP Feb. 21, moved up the date of its annual shareholders' meeting and sought a court ruling that would allow the ESOP's 5.5 million shares to be used in its proxy fight.

The Council of Institutional Investors, whose members are concerned about the proxy fight and the ESOP's effect on shareholder value, asked for and received a March 21 meeting with executives of the companies after NCR established the ESOP and announced its annual meeting would be March 28 instead of April 18.

The council-inspired meeting not only provides a forum for shareholders to ask questions, but also reflects corporate America's growing recognition of the stake that institutional investors have in corporate mergers and companies' long-term performance.

"We can play a valuable role in this process," said Luther Jones, manager of corporate affairs at the Florida State Board of Administration, Tallahassee. "I really think that's the key, whoever wins the proxy fight." The Florida fund, a Council of Institutional Investors member, had 3.2 million shares of AT&T and 246,944 shares of NCR as of Jan. 31. AT&T had about 1.1 billion shares outstanding and NCR, 65 million.

Any potential legal questions over the ESOP are expected to focus on voting rights and fiduciary responsibilities in voting ESOP shares in a proxy fight.

NCR's decision to establish the stock plan largely has been

See **Meeting** *on page 35*

Waiting and wondering

The gears are grinding in anticipation of 404(c) update

By Curtis Vosti

While plan sponsors, consultants and money managers await the Department of Labor's new 404(c) proposal, they are sizing up how the yet-unknown regulations might affect them.

The regulations, which would spell out how plan sponsors can escape fiduciary liability for investment decisions made by plan participants in 401(k), money-purchase and profit-sharing plans, are reportedly ready for a second go-round.

In 1987, the Department of Labor proposed 404(c) regulations that narrowly defined investment categories that would have to be offered, but they were hooted down by the investment community. The proposal mandated a competing product to the popular guaranteed investment contracts, prompting howls from the insurance industry that it would result in lower rates. Plan sponsors saw in the proposal that they would probably have to offer more investment options.

The proposal officially was withdrawn in 1990, but this year the Labor Department forwarded to the Office of Management and Budget a new proposal designed to meet those criticisms.

Despite the interest in the yet-unpublished proposal, consultants say they are telling clients to hold off on new options until the regulations are final. Others are telling clients the regulations will not affect them because of the other fiduciary responsibilities they must bear.

"I'm telling my clients that 404(c) in my mind is much ado about nothing," said Dano Bartolai, a partner with William M. Mercer Inc., Deerfield, Ill. Clients still are required to follow prudent, established, documented procedures, he said. "If prudently chosen, valuated and reviewed regularly, investment options won't be affected by 404(c)."

But, he says, for clients "on the fringes," who only offer company stock or GICs, there will be pressure on them to move to the mainstream and to offer other options.

The proposal's broad outline has somewhat calmed a nervous insurance industry because GICs could be used without a competing product, or as a fourth option outside the regulations.

However well-meaning the Labor Department's intent, it might yield some adverse side effects, according to James Hiner, principal at William M. Mercer Asset Planning Services Inc., Chicago.

"The important thing is that if company funds are added to meet the regs, then the GICs that are periodically negotiated and bought before then will have to be looked at because the competing options may violate some part of the contract," he said.

Unisys Corp., Blue Bell, Pa., already with six investment options, will probably not be affected by the regulations, according to Charles Service, corporate director of capital management and trust investments.

But for Phillips Petroleum Co., Bartlesville, Okla., the anticipated regulation will force the company to add to its plan's current options of company stock, a guaranteed investment product and government bonds. The regulation also will affect the company's aim for employees to have a sizable interest in company stock.

Rex Holsapple, manager of foreign exchange and investments for Phillips' $2 billion defined contribution plan, said employees hold about 24% of the firm's outstanding stock through employee stock ownership and thrift plans.

"We don't like it," Mr. Holsapple said of 404(c). "We expect we will have to adapt on fairly short notice to a way that may not be consistent with the objectives of the plan. To some extent, (adding options) will dilute that."

It wouldn't be a major undertaking to add to the choices, he said, although the firm wouldn't be particularly happy about it. The company has no plans to change right now, according to Mr. Holsapple.

"A while back, we kind of got excited about the thing, but it has kind of kept dragging on," he said. "DOL couldn't make up their minds, and we got tired of worrying about it, and decided we weren't going to worry until it was in black and white." ■

If Ben Graham Invested in Foreign Stocks...

Tweedy, Browne Company L.P., established in 1920, has consistently applied for over 30 years a business valuation approach to the management of investment portfolios of predominantly U.S. securities. Since 1984, the firm has applied the same principles of value investing to selected international equities that it has employed in the management of U.S. oriented portfolios. That approach is to purchase shares which are available in the stock market at a significant discount to business value, or what Benjamin Graham described in *Security Analysis* as intrinsic value. The application of this approach to primarily U.S. investments has produced the following results:

Year	Average total return before deducting fees	Average total return net of actual fees	Average % of portfolio invested in common stocks, not cash	Total return on common stocks alone net of actual fees	S&P 500	Value Line Composite before dividends reinvested	Consumer Price Index	U.S. Treasury Bill total return
1976	43.6%	41.3%	95.3%	43.2%	23.8%	32.2%	4.8%	5.1%
1977	29.2	27.6	93.5	29.3	-7.2	0.5	6.8	5.1
1978	21.6	20.2	92.7	21.3	6.6	4.3	9.0	7.2
1979	30.9	28.8	94.4	30.0	18.7	24.4	13.3	10.4
1980	16.5	14.9	93.8	15.3	32.5	18.3	12.4	11.2
1981	12.4	10.8	84.8	10.0	-4.9	-4.4	8.9	14.7
1982	18.4	16.7	89.4	17.4	21.5	15.3	3.9	10.5
1983	33.3	31.2	84.4	35.4	22.7	22.3	3.8	8.8
1984	18.0	15.8	83.8	17.3	6.3	-8.4	4.0	9.9
1985	31.3	28.9	72.2	38.0	31.8	20.7	3.8	7.7
1986	13.8	11.6	61.5	16.6	18.7	5.0	1.1	6.2
1987	6.6	4.2	67.6	4.5	5.3	-10.6	4.4	5.5
1988	20.4	18.1	62.8	26.5	16.6	15.4	4.4	6.4
1989	15.3	13.2	69.7	16.3	31.7	11.2	4.7	8.4
1990	-10.5	-12.3	71.2	-19.5	-3.1	-24.3	6.1	7.8
Annualized return, 15 years	19.4%	17.4%	—	19.1%	14.0%	7.0%	6.0%	8.3%

Our experience in international equities has shown that the same principles of value investing can be successfully applied outside the U.S. Over the past six years, we have developed data bases to screen foreign equities in much the same manner that we utilize screens in our domestic research. We have established working relationships with foreign investment management firms, many of whom are clients of Tweedy, Browne, and have acquired extensive knowledge of the different accounting, tax and financial practices outside the U.S. as well as the differing regulatory and competitive characteristics of businesses found in other nations.

In our opinion, the increasing globalization of stock markets, the enhancement of financial reporting requirements and the emergence of a single European market place present significant opportunities among the more than 7,000 companies outside the U.S. with publicly traded shares.

Value of $1,000,000 Invested January 1, 1976

Tweedy, Browne average portfolio as of 12/31/90	$11,073,000
Portion of Tweedy, Browne average portfolio invested in common stocks alone as of 12/31/90	$13,750,000
S&P 500 as of 12/31/90	$ 7,116,000
Value Line Composite as of 12/31/90	$ 2,772,000
Consumer Price Index as of 12/31/90	$ 2,411,000
U.S. Treasury Bills as of 12/31/90	$ 3,305,000

Tweedy, Browne Company L.P. began managing client accounts in late 1975 and early 1976. The above schedule presents the annual average investment results for all clients whose portfolios were managed by Tweedy, Browne Company L.P. consecutively from either January 1, 1976 or January 1, 1977 through December 31, 1990. Investment results have been adjusted downward to reflect advisory fees, brokerage and other commissions and other account expenses. Account returns reflect the reinvestment of all dividends and interest payments. There can be no assurance that past results will be equaled in the future. The S&P 500 is an unmanaged index which assumes the reinvestment of dividends and which is generally considered representative of U.S. large capitalization stocks. The Value Line Composite (Geometric) is an equal weighted index of approximately 1700 stocks and is considered representative of the price change of the average stock. The Consumer Price Index is not a stock index but it is generally considered indicative of the rate of inflation. U.S. Treasury Bill rate of return is generally considered indicative of a risk free rate of return because payment is guaranteed by the U.S. government.

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CORRECTIONS & CLARIFICATIONS

• **J.C. Penney Co.**'s defined benefit pension plan held $53.5 million in non-investment-grade bonds as of Sept. 30. The amount was misstated in a chart in the Jan. 21 issue.

• The **Profit Sharing Research Foundation** has hired the Gallup Organization Inc. to conduct a survey of the use of lump-sum distributions. It was reported incorrectly Feb. 18 the foundation's sister organization had hired Gallup.

INVESTING

Enhanced index with fee twist proves to be big draw

■ Only a handful of investment management firms are headed by former corporate pension executives, and one of them, Advanced Investment Management, topped *Pensions & Investment*'s 1990 new business scoreboard for managers with $1 billion to $10 billion in assets.

AIM gained $1.05 billion in 1990, doubling its total assets to $2.05 billion. Almost all of the new business — $903 million — was for indexed equity products, most of it in enhanced indexed funds, and $13 million was for an indexed bond fund.

AIM is headed by J. Thomas Allen, who spent two years on the finance staff at Ford Motor Co. before joining Rockwell International where he was manager of retirement plan financing.

After three years at Rockwell, Mr. Allen joined Pittsburgh National Bank as head of the quantitative investments department within the bank's trust division.

In 1987, Mr. Allen and his group were spun off from the trust department as Advanced Investment Management with about $350 million in tax-exempt assets under management.

Mr. Allen says 1990 was a boom year because of the popularity of the enhanced index approach, and because AIM charges no fee if it fails to achieve its promised return of at least 100 basis points more than the Standard & Poor's 500 Stock Index.

J. Thomas Allen spent time at Ford Motor Co. and Rockwell International before winding up with AIM.

"A lot of sponsors feel plain-vanilla indexing has its purposes, but if they can pursue extra return in ways they can understand, it's an easy sell," he said.

Among the funds to hire AIM in 1990 were Timken Co., Unisys Corp., Minnesota Mining & Manufacturing Co. and K mart Corp.

The people behind Neuberger & Berman's global fixed-income push are India Cutler, left, Theresa Havell and Theodore Giuliano.

INTERNATIONAL

Firm taking in whole wide world

■ Neuberger & Berman is broadening its global fixed-income activity and has hired a marketer to get the word out.

The New York-based firm, which has managed global fixed-income assets on a limited basis for existing clients, now is offering a full range of global fixed-income investment services, including cash and currency management.

Theresa Havell, director of fixed income, and Theodore Giuliano, senior portfolio manager, have been developing Neuberger & Berman's global capabilities. "Our work in global fixed income is consistent with the risk-averse and value-driven strategies we use in the domestic markets," Ms. Havell said. "We'll be looking for inefficiencies created largely by currency differentials in the major world markets."

Key factors will be currency weightings, based on the trend of the U.S. dollar against other currencies; portfolio duration as determined by interest rate trends in each market; and security selection guided by relative sector values in each market.

India K. Cutler has joined the firm as director of global fixed-income marketing. Ms. Cutler was with Salomon Brothers Inc. from 1984 through 1989, including a stint as product manager of the Salomon-Russell Global Equity Index. After leaving Salomon, she was a corporate financial adviser.

BENEFITS

Survey puts numbers in perspective

■ The average long-term assumed rate of return for pension funds of Fortune 500 companies is 9.21% and the median rate is 9%, according to a survey by Hewitt Associates, Lincolnshire, Ill.

The average discount rate used by the funds was 8.62%, while the median discount rate was 8.5%.

The companies had an average annual pay increase assumption of 5.8%; the median was 6%.

The survey found that for fiscal 1989, the average company was 153% funded relative to its vested benefit obligation, while the median company was 147% funded. The average company was 142% funded relative to its accrued benefit obligation and the median company was 138% funded.

Even on a projected benefit obligation basis, the average company was 115% funded and the median company, 113%. The survey found that 75% of the companies reported assets in excess of projected benefit obligations.

Summary of survey results

Hewitt's surveys are based on pension information from the Fortune 500 companies as reported in their annual reports under the guidelines of the Financial Accounting Standards Board's Statement 87. All fiscal year ends and measurement dates have been combined.

	1989	1988	1987	1986
Average discount rate	8.62 %	8.84 %	8.82 %	8.38 %
Average long-term earnings rate	9.21	9.16	9.11	9.30
Average salary increase assumption	5.80	5.90	5.94	5.93
Average vested benefit obligation funded ratio	153	155	160	162
Average accrued benefit obligation funded ratio	142	141	144	147
Average projected benefit obligation funded ratio	115	112	114	118
Percent of companies with assets in excess of:				
Vested benefit obligation	94	90	90	92
Accrued benefit obligation	91	88	86	90
Projected benefit obligation	75	69	71	74
Companies included in survey	**392**	**398**	**364 ***	**242 ***

* A large number of companies initially adopted FASB Statement 87 in 1986, but the number of companies expanded greatly in 1987.
Source: Hewitt Associates, Lincolnshire, Ill.

Graphic by Cynthia Watson

MANAGERS

New manager gets 1st client

■ The money management firm set up by former executives of Western Reserve Capital Management Inc. has a new name and its first client.

Gulfstream Global Investors Ltd., Dallas, received an undisclosed amount of taxable assets for a global portfolio from Rosewood Corp., Dallas. Charlie Tusa, senior vice president at Rosewood, said he was impressed with the track record Gulfstream's principals racked up at Western Reserve.

Thomas Tull, Gulfstream principal, said the founders at first had in mind the name Mariner but found it was taken by a group of pooled funds offered by Marine Midland Bank.

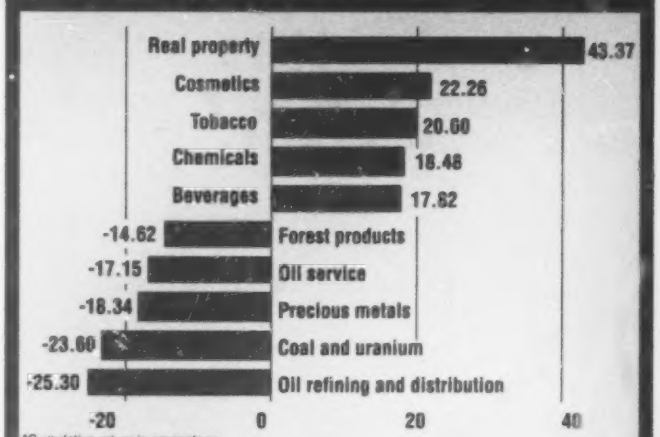
Mr. Tull previously was president of Western Reserve, the in-house investment management subsidiary of The LTV Corp. He also was director-employee benefit fund investments for LTV. Joining him as principals in Gulfstream are Stephen E. Doud and Reiner M. Triltsch, formerly vice presidents and portfolio managers at Western Reserve; and James P. Marsh, previously vice president at First Boston Corp.

Messrs. Tull, Doud and Triltsch are portfolio managers for Gulfstream, and Mr. Marsh handles marketing and client services. The firm manages global equities with an approach focused equally on country allocation and stock selection.

It has the capacity to run regional portfolios as well as across-the-board international and global accounts, and its principals have expertise in emerging markets, Mr. Tull said.

From the best to the worst

Fourth quarter S&P 500 return* attributed to industry groups



*Cumulative return in percentage.
Source: BARRA, Berkeley, Calif.

Graphic by John Smither

ADMINISTRATORS

Acquisition pushes Zenith in orbit

■ Zenith Administrators Inc. has achieved a new peak as the nation's largest third-party administrator for multiemployer benefit plans.

The Washington-based subsidiary of ULLICO Inc. has acquired Trust Fund Management Group, a Dallas-based administrator. That will add 64 accounts and five offices in the Southwest to Zenith's approximately 440 clients and 29 offices nationwide. Among the Dallas group's clients are the Houston District Council Carpenters, Pipefitters Local 211, and the Texas Ironworkers.

The acquisition, whose price was not disclosed, is the fifth in three years made by ULLICO, which has made a commitment to become a national provider of third-party services.

Gary Eng, Zenith's senior vice president and central division general manager, has been named president and chief operating officer for Trust Fund Management Group and will oversee the firm's integration into Zenith's national data network.

DEFINED CONTRIBUTION

Engineers take a calculated approach to retirement

■ Engineers have more fun — at least with defined contribution plans, according to Paul Palinski, vice president at Harris Trust and Savings Bank, Chicago.

Mr. Palinski has observed the proclivities of various plan participants through his marketing of the bank's defined contribution services and earlier, until 1987, through investing and administering the pension and profit sharing plans at then-McGraw Edison Inc.

He said engineers as a group, no matter what the firm, tend to ask more questions about their 401(k) investments. They also use the advantages of daily valuations and transfers more than the average plan participant, he said.

"They are the type of people who are very into details. They spend a lot of time examining their statements. They tend to play the market more," Mr. Palinski said.

While joshingly calling their behavior "an aberration," Mr. Palinski said he thinks there are valid reasons for the trend.

"It's their natural curiosity," he said, then added, with a laugh: "It also allows them to spend more time out of the office."

Illustration by Greg Loudon

ANALYSIS

Author stresses importance of 'economic value added'

G. Bennett Stewart advocates new measures of corporate performance.

■ G. Bennett Stewart, president of Stern Stewart & Co., a corporate financial advisory firm in New York, thinks all the traditional measures of corporate success should be discarded.

In his soon-to-be-published book, "Quest For Value," Mr. Stewart advocates doing away with the time-worn financial management systems and compensation schemes.

Mr. Stewart says earnings per share and cash flow should be replaced by "economic value added," which he defines as operating profits less the cost of capital employed to produce those earnings.

Corporate managers should be paid a share of EVA to motivate them to create value and make them think and behave more like owners. Most companies base bonuses on the attainment of planned levels of performance, Mr. Stewart says.

His firm publishes The Stern Stewart Performance 1,000, which ranks America's companies based on how well they've have added value to shareholders' investments.

The index measures the difference between a company's fair market value, as reflected primarily in its stock price, and the "economic" book value of capital employed.

Because of its focus, the performance index may appeal to institutional shareholders and others who scout for companies whose mission it is to maximize shareholder value.

The top 10 companies in the latest index, which is based on 1989 results, are, in order, **General Electric**, **Philip Morris**, **Merck**, **Bristol-Meyers Squibb**, **Coca-Cola Enterprises**, **Wal-Mart Stores**, **AT&T**, **Procter & Gamble**, **Johnson & Johnson**, and **American Home Products**.

REAL ESTATE

Dutch fund buys stake in U.S. trust

■ New Plan Realty Trust received a $67.1 million cash infusion recently when Dutch pension fund giant Algemeen Burgerlijk Pensioenfonds purchased 4 million equity shares in a private placement, according to officials with the real estate investment trust.

It is ABP's first investment in a U.S. REIT, according to New Plan Chairman William Newman. ABP has assets in excess of $100 billion.

The pension fund has committed to buy an additional 500,000 shares from the real estate investment trust — in the open market or privately if need be — bringing its total investment with New Plan to more than $75 million.

New Plan will combine the proceeds from the sale to ABP with cash from a 1989 equity issue and private placement to continue its strategy of purchasing shopping centers and apartment buildings, trust officials said. Fourteen retail properties have been purchased for a total of $25 million since the equity issue.

ABP intends to purchase the additional 500,000 shares on the open market by April 30. But if it is unable to do so, it has agreed to purchase that amount directly from the trust at $17.50 per share.

CONSULTANTS

Day breaks from SEI, joins Marco

■ Another former SEI consulting professional has joined The Marco Consulting Group, Chicago.

Ivory Day Jr., who spent 15 years with SEI Funds Evaluation Services (now SEI Capital Resources Co.) and its predecessor, A.G. Becker, has been named an account executive at Marco Consulting. The firm's president, Jack Marco, was SEI's national manager of Taft-Hartley funds evaluation services before setting up on his own in 1988; Lauma Griffin, an SEI account executive, joined Mr. Marco in the new firm.

Mr. Day was quality manager when he left SEI in 1986. He became a marketing director in Prudential Asset Management Co.'s Chicago office, the position he held until joining Marco Consulting.

The addition of Mr. Day will help Marco Consulting serve existing clients and will allow the firm to re-open its doors to new business, Mr. Marco said. The firm, which serves only Taft-Hartley funds, has as clients 45 sponsors with combined assets of more than $12 billion.

ASSOCIATIONS

NIMA selects executive director

■ The National Investment Managers Association, a group representing minority- and women-owned money management firms, has hired Lesyllee M. White as its first executive director.

Ms. White, who is based in Washington, will help establish a minority manager data base. The data base will be offered free to pension executives and investment management consultants. Managers also will be listed for free. Currently, there are about 60 minority- and women-owned firms whose investment management performance and other data are being entered into the system.

NIMA also will develop a data base for minorities seeking jobs in the investment management world. The group, which is applying for non-profit status, will not engage in lobbying, but its Washington presence will be a help in reaching influential people, NIMA officials admitted.

Opening the office in Washington also will accomplish another goal: creating a divider between NIMA and NCM Capital Management, Durham, N.C., which has been closely linked to the organization.

Ms. White also works full time as a lawyer for the Pension Rights Center, a non-profit, benefit rights group.

INVESTING

City has brotherly love, good return

■ Philadelphia is safe — for now at least — and so is one of the pension funds that helped bail the city out.

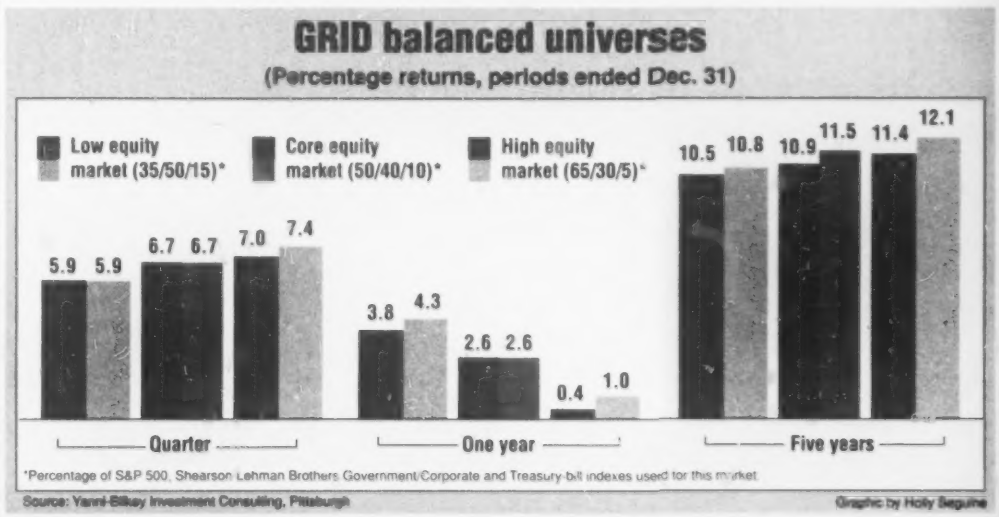
The $17.3 billion Pennsylvania Public School Employes' Retirement System already has received at least two payments on its $37.5 million loan made to Philadelphia earlier this year. Moreover, the fund is happy with the exceptional returns and special structure of the deal that was negotiated, said James A. Perry, executive director at the fund.

The pension fund expects a 26% rate of return on the loan, based on its short duration and the two points Philadelphia paid up front, Mr. Perry said.

"Because of the points and the short duration, the rate was exceptionally good," Mr. Perry said.

Special terms assured the pension fund it would get its money back, Mr. Perry said. As part of the deal, a third-party custodian bank has been delegated to intercept all the tax payments that normally would go to the city treasurer and defer them to the lenders, Mr. Perry said.

"There is someone intervening to see to it that the city pays its bills," Mr. Perry said. "We intercept their cash before they even get it," he said. And, city officials "have enough cash flow . . . to pay off these loans by the time the notes come due," he said.



Unmasking ERISA's 'protections'

By David Langer

The 1990 budget reconciliation act purports to improve employee benefits by further restricting reversions and by permitting the transfer of defined benefit assets into a 401(h) retiree medical benefit account.

But employee benefit provisions in the new law raise troubling questions about its real intent as well as the legislative system.

Do we in this day once again have taxation without representation? It seems we do when one looks at the way pension measures have come into being in recent years, frequently without adequate public hearings. Having little role to play, the benefits community has become little more than an ineffective complainer.

Consider the two most important provisions in the act dealing with reversions and retiree medical benefits.

The new, higher excise tax on reversions discourages, as probably intended, any termination of defined benefit plans having large surpluses. That may not be good public policy. Sponsors now may prefer to fund as minimally as possible, even though such a policy may impair plan solvency. Those sponsors with surpluses may want to reduce investment risk and, as a result, accept lower returns by placing more assets in Treasury securities. Sponsors with surpluses who foresee the need to terminate their plans will consider alternatives for cutting back on the surplus as much as possible before such terminations by raising benefits and by reducing any contributions.

The new excise tax, coupled with regular federal, state and local income taxes, is tantamount to confiscation of any surplus. The budget reconciliation act raised the excise tax, which was 15%, to either 20% or 50%, depending on circumstances. The total tax on reversions, including regular federal, state and local taxes, probably will range between 60% and 96%, leaving 40% to 4% for the employer.

The Employee Retirement Income Security Act of 1974 intended that any surplus revert to the sponsor. ERISA's Section 4044 (d)(1) states any surplus may be distributed to the employer upon the satisfaction of all liabilities to participants and their beneficiaries. But now the government has decided to claim the surplus. So ends the debate about who owns the surplus, neither sponsor nor employee.

The idea of transferring surplus pension assets to pay retiree medical expenses is worthy. The authors of the law, however, burden this useful and simple transfer concept with requirements of fully vesting accrued pension benefits and tricky maintenance of effort, both of which will limit interest by employers. This is puzzling because transfers raise additional current tax payments to the government.

Clearly, the success of qualified plans in improving retirement benefits of a large segment of our work force has, unfortunately, caught the eye of the prodigal government. It now appears the government, whenever it can manufacture a reason, will appropriate retirement plan assets for itself.

The marvelous apparatus that private enterprise has assembled to accumulate and disburse funds for retirement is thus being progressively undermined. The executive and legislative branches clearly have assumed a royal status for themselves by not subscribing to the same standards of conduct established by ERISA for the ordinary citizens who are plan fiduciaries.

The benefits community, which has greater practical experience operating plans, should be given legal status in the legislative and regulatory process so it can enjoy real influence. That would make for more constructive collaboration among the benefits community, Congress and its staff, the Internal Revenue Service and the departments of Labor and Treasury. ■

Illustration by Douglas Klauba

David Langer is a consulting actuary and the president of David Langer Co. Inc., New York.

LETTERS TO THE EDITOR

Defined contribution plan service providers

Dreyfus Benefits

■ Dreyfus Benefits, a division of Dreyfus Service Corp., a mutual fund and money management firm, missed your Dec. 10 directory of defined contribution plan service administrators and software providers. Dreyfus Benefits offers full trustee services. It has 587 clients. Average plan size is 500 participants; median plan size is 310. Administrative services staff totals 50.

Its record-keeping services can handle 36 contribution categories; 99 investment selections per plan; transfers and allocations among investment funds; federal and state tax withholding; loan provisions; compliance testing; comprehensive reports to plan sponsors and participants; and daily valuation of participant balances.

Administrative services provide coordination of trust and record-keeping activities; reconciliations of trust assets and participant records; filing of tax forms; support for dividend reinvestment programs; proxy voting and tabulation services; 800 numbers for participant balance inquiries and transactions; and coordination with GIC carriers.

Other services include communications programs, plan design assistance, prototype plans, telephone exchanges and broad investment services. Offices are in New York, Atlanta, Chicago, Denver, San Francisco and Los Angeles. Fees are calculated on a participant basis. Valuation frequency and/or ancillary services are determinants.

Key executives overseeing defined contribution plan administrative services are myself and Lynda J. Meyer and Paul Allen, both senior vice presidents.

Mary Rudie Barneby
President
Dreyfus Benefits Division
Dreyfus Service Corp.
New York

Crestar

■ Crestar Financial Corp. missed your defined contribution services directory.

Crestar Bank's trustee services provide settlement-date accounting for valuation of assets and securities lending support.

Record-keeping services can handle 10 contribution categories and 30 investment selections; monthly transfers are allowed among investment funds. The system offers tax withholding, loan provisions, and reports to sponsors and participants.

The administration service provides coordination of trust and record-keeping activities; reconciliation of trust assets and participant records; filing of necessary tax forms with government agencies; support for dividend reinvestment programs; proxy voting and tabulation services; and coordination with GIC carriers.

Forty-seven Crestar employees are involved in plan administration services.

Offices are in Richmond, Norfolk, Roanoke and Lynchburg, Va.; and Washington.

The bank buys software from an outside vendor. Fees are based on a combination of asset value and individual services.

The key executive overseeing the services is Gordon R. Boardway.

Cathy M. Carter
Assistant vice president
Crestar Financial Corp.
Richmond, Va.

Ameritrust and Ameritrust

■ In your directory of defined contribution plan service providers, Ameritrust Co. N.A. of Cleveland was omitted while our affiliate, Ameritrust Texas, was included.

The information and statistics provided by Ameritrust Texas are for our Texas offices only. An additional listing for Ameritrust Co. is needed to fully depict our defined contribution plan services.

Ameritrust, a trust company, has 244 clients. The average plan size is 665 participants. Its administrative staff is 75.

Its trustee services provide trade-date, settlement-date and tax-lot accounting for valuation of assets; multiple sources for securities pricing; daily transactions reports; and securities lending support.

Its record-keeping services handle unlimited contribution categories and unlimited investment selections; and monthly transfers and reallocations. The system provides for tax withholding; loan provisions; comprehensive reports to both sponsors and participants; and daily valuations on participant balances.

Ameritrust's administration services provide: coordination of trust and record-keeping activities; reconciliation of trust assets and participant records; filing of tax forms; support for dividend reinvestment programs; proxy voting and tabulation services; 800 numbers for participant balance inquiries and participant transactions; and coordination with GIC carriers. Ameritrust also offers 18 investment funds.

Offices are in Ohio (Cleveland, Columbus, Cincinnati); Indiana (Indianapolis, Kokomo, Elkhart); and Michigan (Sturgis). Fees are based on the number of balances, participants, valuation frequency, and frequency of participant statements.

The key executives overseeing services are: Gary W. Queen, senior vice president; George Fetko, vice president; and Peter Corrado, vice president.

Andrew L. Sikorovsky
Trust marketing analyst
Ameritrust Co.
Cleveland

IDS Trust

■ IDS Trust was missing from the Dec. 10 directory of defined contribution service providers. IDS Trust, a trust company, has 237 clients. The average plan size has 1,010 participants. Its administrative staff is 275.

Its services provide trade-date accounting for valuation of assets; multiple sources for securities pricing; and daily reports.

Its record-keeping services can handle 20 contribution categories; 20 investment selections; daily and periodic transfers and reallocations among investment funds (including daily valued GIC option and company stock); tax withholding; complete loan provisions; comprehensive monthly reports to plan sponsors and quarterly statements to participants; and daily valuation on participants' balances.

Administrative services provide coordination of trust and record-keeping activities; daily reconciliation of trust assets and participant records; support for dividend reinvestment programs; proxy voting and tabulation services; an 800 number for participant inquiries and transactions; in-house discrimination testing; and coordination with GIC carriers.

Other services include prototype plan documents; comprehensive employee communication programs; quarterly investment reviews for plan sponsors; on-line access; company stock accounting; daily value GIC fund; GIC portfolio management; and a broad range of mutual fund investments.

Software is purchased from an outside vendor; fees are based on the number of participants and plan design.

The key executives overseeing defined contribution plan administrative services are Gary Anderson, Robert Rudell and Lisa Griebel, all vice presidents.

Louise E. Nemmers
Marketing manager
IDS Trust
Minneapolis

John Hancock

■ We were omitted from your directory of defined contribution plan service providers.

John Hancock is a full-service provider of 401(k) programs. Clients can choose from a family of investment products, including stock and bond funds as well as guaranteed investment contracts. Our record-keeping services offer daily valuation, administrative flexibility to plan sponsors and comprehensive reporting to plan participants.

Also, we offer plan design and document services, employee communications and enrollment assistance, benefit payment services and annual Form 5500 preparation.

John Hancock has 12 offices throughout the country and a business unit to serve defined contribution clients and prospects.

Joseph P. LoRusso
Second vice president
Defined contribution products/services
John Hancock Mutual Life Insurance Co.
Boston

TrustMark

■ TrustMark Inc. was omitted from your defined contribution services directory.

TrustMark offers PC/LAN-based defined contribution record-keeping software products and has almost 300 installed systems.

Our software functions include check writing, loan processing, individual or pooled guaranteed investment contract tracking, eligibility and compliance testing, and performance measurement and voice response interfaces.

Hardware required is IBM compatible PC with 640K RAM and 20 MB hard drive. Price fully installed ranges from $9,500 to $60,000. Telephone assistance is available nine hours a day. Staff has 27 professionals.

Kent H. Novell
Vice president-sales and marketing
TrustMark Inc.
Charlotte, N.C.

The following firms were omitted from the directory of minority- and woman-owned financial services firms published Oct. 15.

Aquarius Capital Management
189 Canal St., Providence, R.I. 02903; (401) 274-0881

Aquarius Capital Management, founded in 1989, offers equity and fixed-income investment management.

Its equity approach is primarily value-oriented, focusing on established mid- to large-size companies with strong balance sheets, low relative p/e ratios and positive earnings growth potential. A top-down, sector-rotation methodology is used to manage portfolios. Stocks are selected from approved common stock lists quantitatively to match a client's objectives and risk tolerance.

Fixed-income accounts are actively managed stressing safety of principal by investing in U.S. government and high quality corporate bonds of primarily short to intermediate maturities.

Key professionals at the firm are Allen R. Waters, partner, with eight years of experience, and Abu R. Bakr, partner, with three years of experience.

Cadinha & Co. Inc.
900 Fort St., Suite 1240, Honolulu, Hawaii 96813; (808) 523-9488

Cadinha & Co. Inc., founded in 1979, offers investment counseling and portfolio management.

It has $290 million under management, of which $230 million is for tax-exempt clients.

Its equity approach is top-down, focusing on demonstrated growth. Interest rate anticipation is used in managing fixed-income accounts.

Key professionals at the firm are Harlan Cadinha, president, with 23 years of experience; Leon Munson, vice president, with 26 years; and Janis Akuna, vice president, with 13 years of experience.

Capital Insight Brokerage
190 N. Canon Drive, Suite 200, Beverly Hills, Calif. 90210; (213) 858-5165

Capital Insight Brokerage, founded in 1987, offers full broker dealer services.

Its areas of expertise in investment banking are co-managing municipal bond underwritings and equity research specializing in small-cap situations.

Special brokerage services offered by the firm include being members of Instinet; floor brokers strategically located on the major exchanges which ensures confidential execution of block trades; and night trading in Japan and London for U.S. Treasury bonds, futures, options and foreign currencies.

Key professionals at the firm are Marilyn Cohen, president, with 15 years of experience; Jene Alexander, head equity trader, with 23 years; and Brian McDonald, head trader-fixed-income, with eight years of experience.

Clemente Capital Inc.
767 Third Ave., New York, N.Y. 10017; (212) 759-3339

Clemente Capital Inc., founded in 1979, offers investment advisory management services.

It has $300 million in discretionary assets under management, of which $28.8 million is for tax-exempt clients. The firm also acts as adviser to $7 billion in Japan.

The firm is an active equity manager, taking a growth-oriented, top-down approached combined with bottom-up fundamental research. For fixed-income accounts, the firm is an active, total return manager. Using a world economic outlook, the firm assesses potential returns, then focuses on country selection, issue and currency considerations. Global cash services also are offered, stressing high income, active currency management.

The firm offers consulting services on global asset allocation.

Key professionals at the firm are Lilia C. Clemente, chief executive officer/global strategist, with 22 years of experience; Leopoldo M. Clemente, president, with 24 years of experience; and Thomas Prapas, chief economist, with 25 years of experience.

Galleon Capital Management
1527 Calle Tulipanes, Encinitas, Calif. 92024; (619) 943-1620

Galleon Capital Management, founded in 1990, offers domestic and international equities and fixed-income management.

Its equity approach is value oriented, using quantitative and fundamental analysis to select undervalued equities. Valuation estimates are derived from the cash earnings generated from operations and nets out all transitory and non-cash expenses. For fixed-income accounts, it uses proprietary quantitative methods.

Consulting services offered by the firm are geared toward domestic and international equities and fixed income.

Key professionals at the firm are Louis Acevedo, president, with eight years of experience; William Roach, vice president, with five years; and Gary Johnson, vice president, with 20 years.

The case for in-house management will be discussed in the June 10 issue.

GW Capital Inc.
10800 N.E. Eighth St., Suite 315, Bellevue, Wash. 98004; (206) 646-9336

GW Capital Inc., founded in 1989, offers equity, convertible bond, fixed-income and balanced management.

It has $25 million under management, all of which is for tax-exempt clients.

Its equity approach uses a combination of analytical and technical research to construct a list of companies. By using top-down analysis of business and economic cycles, a primary consideration in selecting stocks is companies having earnings and assets not yet reflected in their market price. For fixed-income accounts, decisions are based on a thorough examination of the interest rate cycle and its relationship to the business cycle and economic outlook.

The key professional at the firm is Guy Watanabe, president, with 15 years of experience.

Hanover Capital Asset Management Inc.
90 West St., Suite 608, New York, N.Y. 10006; (212) 732-4272

Hanover Capital Asset Management Inc., founded in 1990, offers active fixed-income management and financial advisory services.

It has $20 million under management, none of which is for tax-exempt clients.

The firm invests primarily in mortgage-backed securities using quantitative techniques to meet or exceed client-specified benchmarks. It uses a modified buy-and-hold approach, selecting bonds for their fundamental value. Fundamental investment principles are coupled with quantitative analysis.

Its areas of expertise in investment banking are financial advisory, mortgage derivatives and securitization.

The firm offers asset/liability management consulting services.

Key professionals at the firm are Marilyn J. Dicks, president and chief executive officer, with 12 years of experience; Inna N. Tavares, managing director, with six years; and Joyce S. Mizerak, vice president, with five years.

INNOVA Securities Inc.
290 Westminster St., Providence, R.I. 02903; (401) 521-0390

INNOVA Securities Inc., founded in 1990 as a joint venture with Mutual Benefit Life, offers brokerage and financial management consulting services. Registration as an investment adviser is pending with the SEC.

Its equity approach is to use growth and value stocks in approximately equal weighting within the portfolio. The style is active and oriented toward fundamental as opposed to technical analysis.

The firm plans to introduce principal underwriting and finance capabilities during the second quarter.

Brokerage services offered by the firm are fixed income and equity; and sinking-fund special purchase programs.

Consulting services offered by the firm are asset allocation, investment policy development, performance monitoring, abandoned property, financially distressed municipalities and governmental entities.

Key professionals at the firm are Edward A.H. Siedle, president, with 10 years of experience; Eric H. Pookrum, executive vice president, with 11 years; and Vincent J. Santos, vice president-institutional trading, with eight years.

Institutional Portfolio Services Ltd.
One First National Plaza, Suite 2594, Chicago, Ill. 60603; (312) 236-5388

Institutional Portfolio Services Ltd., founded in 1969, offers advisory and management services to pension and profit-sharing trusts, in generally U.S. stock and bond markets. Depending on client preferences, options and futures are used to hedge the portfolio.

It has $90 million under management, of which $50 million is for tax-exempt clients.

Its equity approach is top down, depending on the stage of the economic cycle it anticipates. The firm chooses two dominant firms in each of the five industries that are favorably situated during a given phase of the economic cycle. Less than 10% of the total portfolio is allocated to special situations or turnarounds.

For fixed income, the firm in the past 10 years has emphasized only U.S. Treasuries because of their non-callable and safety features. They are used only when yields have exceeded long-term expectation from equities of around 10% or prior to an expected major change in inflation prospects.

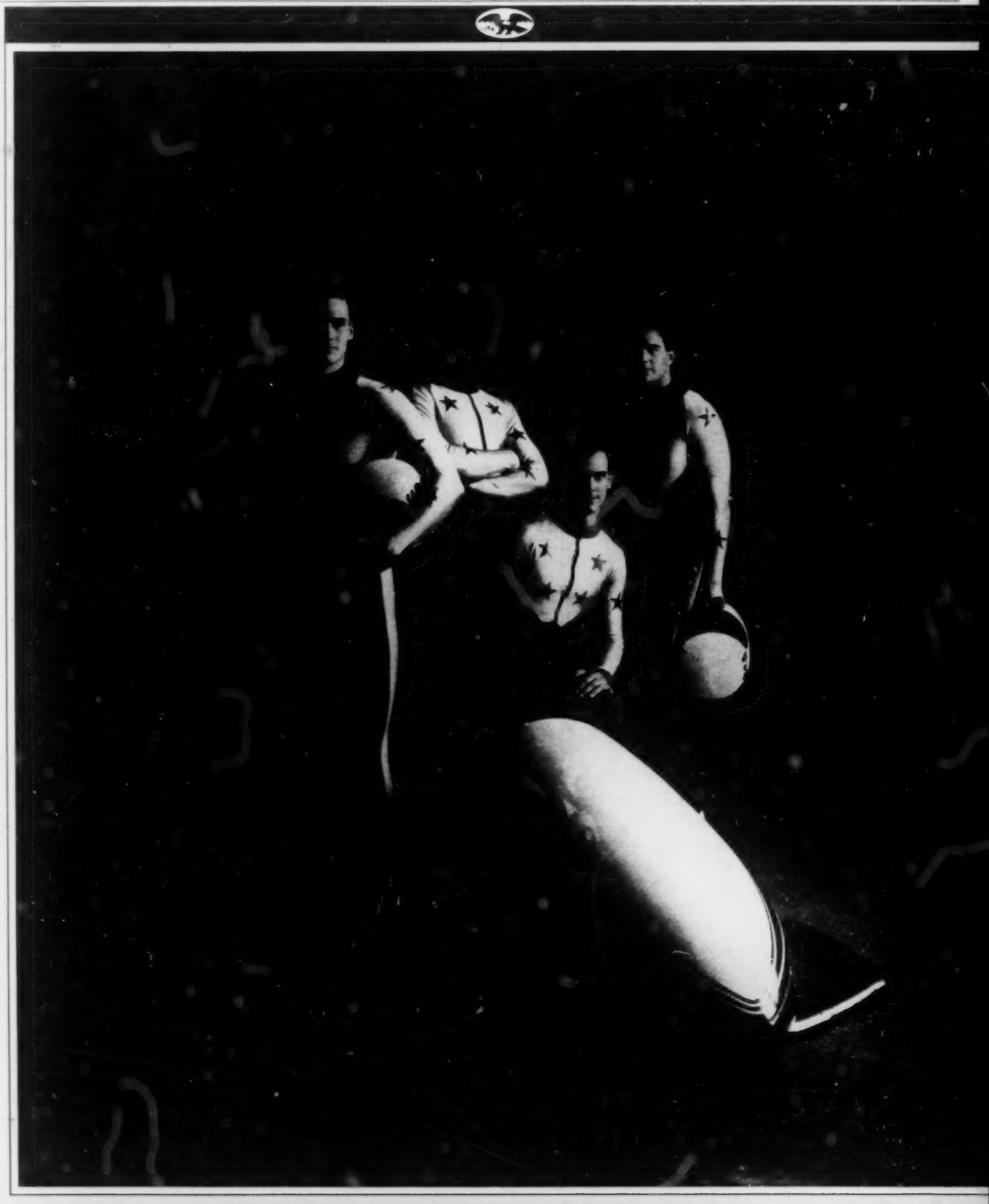
Key professionals at the firm are B.P. Pai, president, with 21 years of experience, and Mohini C. Pai, vice president, with 15 years of experience.

Johnson Capital Management Group Inc.
899 Logan St., Suite 202, Denver, Colo. 80202; (303) 837-8051

Johnson Capital Management Group Inc., founded in 1990, offers equity management.

Its equity approach is to buy domestic companies that can effectively compete in countries worldwide, following a bottom-up approach.

Key professionals at the firm are Odell O. John-



son, president, with six years of experience; William M.B. Berger, chairman, with 40 years; and Rodney Linafelter, portfolio adviser, with seven years.

Labadie Capital Management
2000 Town Center, Suite 1900, Southfield, Mich. 48075; (313) 351-8738

Labadie Capital Management, founded in 1990, offers investment management for individuals, corporations and municipalities.

It has $5 million under management, none of which is for tax-exempt clients.

Its equity approach emphasizes growth, using value parameters to screen the medium- to large-cap growth universe. Its fixed-income approach is active, forming interest rate, credit risk and spread inefficiencies that are implemented via an optimization routine.

Key professionals at the firm are Barbara Boyden Labadie, chairwoman, with 12 years of experience; and Mary Jane Hilker, president, with 10 years.

Lee Asset Management Co.
200 S. 333rd St., Suite 109, Federal Way, Wash. 98003; (206) 838-1026

Lee Asset Management Co., founded in 1989, offers investment management.

It has $19.6 million under management, of which $10 million is for tax-exempt clients.

Its equity approach focuses on fundamental research with use of price target disciplines. The style is value oriented, which includes unrecognized value and out-of-favor securities. In addition to national names, the firm also specializes in Western-based issues. For fixed income, it uses high-grade issues, laddered to meet client needs.

Key professionals at the firm are Laura E. Lee, president, with 13 years of experience; Carol M. Angvall, vice president, with 20 years; and Janice T. White, vice president, with 15 years.

Lefcourt Financial Group
3 Palo Alto Square, Palo Alto, Calif. 94306; (415) 857-9033

Lefcourt Financial Group Inc., founded in 1980, offers investment management.

It has $155 million under management, of which $54 million is for tax-exempt clients.

Its equity approach is growth-oriented and seeks two classes of companies — established growth companies with superior records and prospects and companies experiencing rapid improvement due to specific corporate events. In fixed income, it focuses on sector inefficiencies and mispriced issues to achieve incremental returns.

Key professionals are Carol Lefcourt, chief investment officer, with 25 years of experience, and Jonathan West, senior vice president, with 20 years.

Llama Asset Management
1 McIlroy Plaza, Suite 302, Fayetteville, Ark. 72701; (501) 444-4080

Llama Asset Management Co., founded in 1988, offers discretionary fixed-income management.

It has $60 million under management, of which $52 million is for tax-exempt clients.

The firm aggressively seeks undervalued issues and sectors and currently feels a moderate duration, high-quality portfolio will afford the best returns.

Key professionals are Alice Walton, president, with 18 years of experience; C.E. Lanpher, vice president, with 33 years; and Donna Broomall, vice president, with 10 years.

ORO Financial Inc.
4037 Tulane Ave., New Orleans, La. 70119; (504) 482-4116

ORO Financial Inc., founded in 1987, offers securities broker/dealer services.

The firm offers full services and specializes in domestic institutional equity, listed options and fixed-income capabilities.

Miguel Uria, president, with 28 years of experience, is the key professional.

RhumbLine Advisers Corp.
30 Rowes Wharf, Boston, Mass. 02110; (617) 345-0434

RhumbLine Advisers Corp., founded in 1990, offers investment management.

It has $5 million under management, all of which is for tax-exempt clients.

The firm offers domestic and international management. The equity approach is indexed and structured. For fixed income, the approach is passive.

Key professionals are J.D. Nelson, chief executive officer, with 12 years of experience; John A. Denney, chief investment officer, with 10 years; and Wayne T. Owen, director of marketing, with 12 years.

Solon Asset Management
237 Park Ave., Suite 2100, New York, N.Y. 10017; (212) 551-1716

Solon Asset Management Corp., founded in 1990, offers fixed-income investment management to institutional investors.

It has $250 million under management, of which $25 million is for tax-exempt clients.

For fixed-income accounts it offers value-oriented active management with expertise in mortgage-related securities.

Key professionals are Deborah Hicks Midanek, chief executive officer, and James I. Midanek, chief investment officer, both with 11 years of experience.

Sturdivant & Co. Inc.
130 N. Broadway, Suite 1007, Camden, N.J. 08102; (609) 365-8884

Sturdivant & Co. Inc., founded in 1988, offers equity investment management, research and brokerage.

It has $13 million under management, all of which is for tax-exempt clients.

The firm uses a relative value, bottom-up approach that is approximately 70% qualitative and 30% quantitative. Screening reveals companies with capitalizations greater than $500 million, below-market price-earnings and price-book characteristics and positive earnings growth momentum.

In brokerage, the firm offers a complete range of specialized, cost-competitive services in domestic, OTC and international markets.

Key professionals are Ralph Sturdivant, chairman, with 16 years of experience; Albert Sturdivant, president, with 17 years; and Lorraine Howard, managing director, with 18 years.

Vydex Management Group
125 Worth Ave., Palm Beach, Fla. 33480; (407) 659-3288

Vydex Management Group Inc., founded in 1981, offers portfolio management and investment counseling.

It has $12 million under management, all of which is for tax-exempt clients.

Its bottom-up equity approach is value-oriented, emphasizing undervalued companies with strong growth potential. Its fixed-income approach is active, using a disciplined duration method.

Consulting services offered are investment selection and monitoring and analyzing the performance and investment strategy of portfolio managers.

Key professionals are Pearlena Wallace, president, with 10 years of experience; and Sharon G. King, senior manager, with seven years.

Wagner & Hamill Inc.
410 17th St., Suite 840, Denver, Colo. 80202; (303) 892-6928

Wagner & Hamil Inc., founded in 1975, offers discretionary investment management and advisory services.

It has $235 million under management, of which $10 millions is for tax-exempt clients.

In equities, its strategy combines established growth and emerging growth with a long-term value bias. Equity selection focuses on consistent earnings growth. For fixed income, it focuses on high-quality, current-coupon bonds of short to intermediate maturity, emphasizing capital preservation and high current income.

Key professionals are Judith B. Wagner, chief executive officer, with 20 years of experience; Carolyn Hamil Henderson, president, with 10 years; and Debra L. Holte, executive vice president, with 10 years.

Wedgewood Capital Management Inc.
901 15th St., Suite 220, Washington, D.C. 20005; (202) 408-1550

Wedgewood Capital Management Inc., founded in 1987, offers active fixed-income management for long and intermediate duration assets.

It has $28 million under management, all of which is for tax-exempt clients.

Its fixed-income approach makes modest duration shifts around an index's duration in response to real and observed economic changes.

Key professionals are Daryl C. Dennis, chief investment officer, with five years of experience; Malcolmn D. Pryor, president, with 15 years; and Raymond J. McClendon, chairman, with 15 years.

Barclays deal is completed

The Barclays Group, London, has completed its previously announced acquisition of a 60% interest in E.J. McConnell & Associates Ltd., a Canadian money management firm.

The firm, which is now called Barclays McConnell Ltd., has offices in Toronto and Montreal and a subsidiary, Barclays McConnell (Atlantic) Ltd., Halifax, Nova Scotia.

Graham Colbourne, previously a director of another member of the Barclays Group, London-based BZW Investment Management, has joined Barclays McConnell as chief operating officer. ■

INSTITUTIONAL AND MASTER TRUST

EVERYONE PUSHING FOR GREATER PERFORMANCE. THAT'S WHEN THE RESULTS REALLY SHOW.

When the goal is peak performance, nothing short of total commitment will do. Personally. Collectively. □ At Bank of Boston, our commitment to offering you the most thorough, prompt and custom-tailored solutions to your Institutional and Master Trust needs is exactly that – total. □ You'll see it in our people who are specialists. From the highly experienced Account Manager who has responsibility for your business, to the team of knowledgeable, dedicated professionals who administer all the details of day-to-day operations. □ You'll see it in the state-of-the-art facilities at our Securities Division headquarters in Canton, Massachusetts. We even created a unique Control Room that ensures quality by monitoring your account with 55 different check points. □ Most of all, you'll see it in the results. Like accurate and timely reports. The immediate resolution of issues. The innovative reporting formats that make your account activities data more useful to you. And one last result. The peace of mind that comes from knowing you're in the hands of experts. □ To learn more about our Institutional and Master Trust, talk to John Houlihan in the Securities Division at (617) 575-2171. □ For a commitment you can trust, rely on Bank of Boston's Institutional and Master Trust.

THE RIGHT PEOPLE. THE RIGHT MOVE.

BANK OF BOSTON

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A benchmark alternative

P&I to publish the Efficient Index as regular feature

By Chuck Paustian

To accommodate institutional investors' never-ending quest for more efficient methods for investing in the equity market, *Pensions & Investments* unveils the Efficient Index.

The index, a portfolio of about 150 stocks, offers investors an alternative for equity investing in general and passive strategies in particular. The Efficient Index will become a regular feature of *P&I*'s Statistically Speaking page.

Building off the work of Harry Markowitz during the 1950s, Robert A. Haugen, professor of finance at the University of California, Irvine, and executives of National Investment Services of America Inc., Milwaukee, developed the index in an effort to control risk by devising a low volatility stock portfolio.

At the beginning of any quarter the index is the portfolio that, subject to four constraints, produced the lowest volatility during the previous 24-month period.

The constraints are:

- A stock must be in the Standard & Poor's 500 Stock Index and have a 24-month trading history at the start of the quarter.
- At the start of each quarter, the weight of a stock must be no less than zero and no more than three times its S&P 500 weight or 5%, whichever is less.
- At the start of each quarter, no one industry weight can be greater than 20%.
- Turnover is controlled to approximate 20% annually.

As originally constructed, the Efficient Index was built from the 1,000 largest stocks by market capitalization. The universe was limited to S&P 500 stocks, however, to improve liquidity and investibility.

Mr. Haugen has argued capitalization-weighted indexes — such as the S&P 500 or the Wilshire 5000 — are not appropriate benchmarks for the equity market because they are inefficient portfolios. The inefficiencies arise from the differing constraints faced by groups of investors. He further argues targeting the cap-weighted benchmarks in passive indexing strategies has resulted in substantial costs to investors (*P&I*, Oct. 1, Oct. 15).

In addition, he said investors began to skew the notion of risk, in effect redefining the concept as the degree to which a portfolio tracks one of the cap-weighted indexes. Thus, risk management has become a practice of reducing tracking error.

The Efficient Index, however, returns to the Markowitz concept of risk, namely the variance in a security's or a portfolio's return.

"We've been sitting on this for 40 years and have not really taken advantage of it," Mr. Haugen said.

He uses a culinary analogy to describe differences between the Efficient Index methodology and other forms of stock investing.

"Suppose you're in a kitchen trying to make some stew. You have three cabinets behind you — in one you have the condiments, in one you have the vegetables and in the other you have the meats.

"With security analysis, you take all the ingredients down and taste them individually and if they taste good, you put them in the pot. But you would never put vinegar or garlic in the pot because by themselves they don't taste good.

"The technology of efficient investing examines the interaction of the different ingredients and put them together in the best possible way. In effect, he has given us the recipes for creating some wonderful dishes.

"With current indexing strategies, you simply take everything in the kitchen and throw it in the pot and hope it turns out all right."

Nardin L. Baker, vice president of National Investment Services of America, said the technology used to construct the Efficient Index also can be used to build equity portfolios that, in addition to low volatility, are sensitive to other factors.

"An interesting benefit of using an efficient stock portfolio is that clients can specify their own objectives or constraints, such as avoiding a particular industry or avoiding South Africa-related stocks," he said.

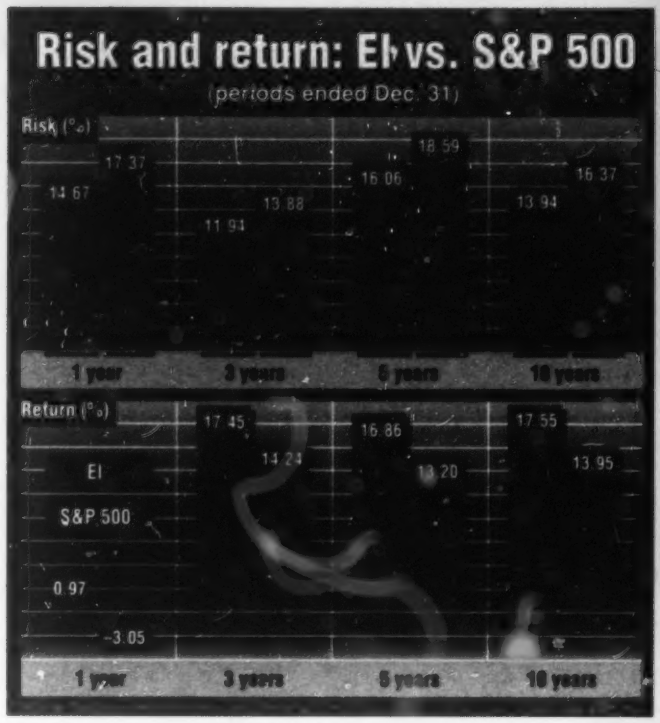
Added Joseph E. Gorman, president of NISA: "I think the place where it would have the clearest application is as an alternative to indexing."

Mr. Gorman said the Efficient Index evolved from efforts to build stock portfolios that were sensitive to interest rates. The idea was to offer pension executives a portfolio with stocklike returns, but bondlike characteristics so as to more closely match a plan's liabilities.

While the initial assumption was that an investor would have to sacrifice some return, "it turned out that when we tried to build a portfolio like that, it had returns superior to the S&P," Mr. Gorman said.

Mr. Gorman said similar results were achieved when the firm and Mr. Haugen tried to build a stock portfolio sensitive to inflation.

The firm has been managing $50 million from four clients in efficient stock portfolios since 1987. The concept of the Efficient Index was developed in the fourth quarter of 1990. ■



Copies of previous *Pensions & Investments* articles on the Efficient Index, as well as additional information on the index's composition, can be obtained from National Investment Services of America Inc., (414) 271-6540.

PBGC study offers own view

By Curtis Vosti

WASHINGTON — A study by the Pension Benefit Guaranty Corp. says the drop in workers covered by single employer defined benefit plans can be attributed solely to employment shifts.

The study, compiled by PBGC Chief Economist Richard Ippolito, challenges prevailing views that the drop in workers covered by defined benefit plans is due to employers' preference for defined contribution plans. This view held the increasing cost of regulations had prompted employers to shift to defined contribution from defined benefit coverage for their workers.

But Mr. Ippolito found that by factoring in the simultaneous drop in union affiliation among workers, looking at just single-employer plans and weighting the data by active participants rather than the number of plans, the net result was almost no change in preferences for single-employer defined benefit plans.

There was a preference change among smaller plans, those with fewer than 1,000 participants, the study showed.

That shift, however, was more than offset among the slightly increasing preference for defined benefit plans among larger plans, Mr. Ippolito said.

The study looked at the period between 1979 and 1987, when participation in defined benefit plans by employees in firms with at least 1,000 workers dropped to 75% from 88%.

Previous studies, which offered support for the view that the drop in coverage was due to a preference for defined contribution plans, differed from Mr. Ippolito's research in several ways other than from the participant-weighting of the data.

He used more recent data that included the union status of the plans; thus he was able to factor in the drop to 16% from 24% of the workforce covered by unions during the study period.

"Union codes are very important because union workers historically have been covered almost exclusively by defined benefit plans," Mr. Ippolito wrote.

"Thus, if union affiliation is not measured, the estimates will attribute employment shifts toward the non-union sector as preference changes."

Another important distinction is that Mr. Ippolito evaluated only single-employer pension plans; he said multiemployer plans react to different stimuli and could unfairly skew the data.

In 1980, Congress included multiemployer plans in PBGC coverage, and attached a liability for the trusts' underfunding to the contributing firms.

This made it attractive for multiemployer trusts to switch to defined contribution plans to limit their liabilities, he said, and during the study period the market share of defined benefit plans among multiemployer trusts dropped to 84.7% from 93.5%, all attributed, he said, to a changing preference.

But, he said, the multiemployer data should be separated from the overall universe of pension plans because of its uniqueness and the likelihood of specification error if two groups were merged.

He also noted the conventional wisdom about the lower cost of defined contribution plans as a reason for a shifting preference is undermined when it is realized that 401(k) plans, the most popular of the defined contribution options, have higher administrative costs than other defined contribution options. ■

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PBGC

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to pressure corporations to better fund their plans by releasing data on their levels of underfunding.

The agency's list of the top 50 underfunded pension plans — released last week and showing a $14.2 billion shortfall for guaranteed benefits — again provoked cries of protest from many employers.

"This list is probably misleading and only would be indicative of a problem if a company is in financial trouble," said Ben Bastianen, treasurer of Borg-Warner Corp., Chicago. He complained the company's underfunding appeared on the list but its overfunded plans were ignored.

Nevertheless, pension experts generally agree the PBGC must take efforts to reduce its exposure to losses.

The agency's deficit nearly doubled in the fiscal year ended Sept. 30 to $1.78 billion from $1 billion the year before, according to its annual report released last week. That loss largely was due to terminations of underfunded pension plans, which accounted for $927.9 million in fiscal 1990 vs. $163.3 million the year before.

Termination of seven Eastern Air Lines Inc. plans was responsible for nearly $700 million in probable losses. The plans were terminated five days into the PBGC's 1991 fiscal year, but some of the losses were booked in fiscal 1990.

The PBGC also incurred investment losses of about $96 million, in contrast with a $441 million gain in 1989.

All told, the agency suffered a $1.2 billion swing in its profitability, incurring a net loss of $780 million, compared to a $451 million profit the year before. That shows, the PBGC maintains, that remedial legislation enacted in 1986 and 1987 still was not enough to protect the agency.

The PBGC also argues that 30 financially weakened companies may shift about $8 billion in losses to the agency — about 10 times the agency's annual premium income. Such companies likely include Pan Am Corp. and Western Union Corp.

While the PBGC is not seeking any increase in the annual premium it charges sponsors of single-employer pension plans, it expects to propose legislation enhancing its status in bankruptcy proceedings, imposing tougher funding rules and limiting the agency's exposure to plant shutdown benefits (*Pensions & Investments*, Jan. 21).

The agency is making additional efforts to reduce its risk of absorbing big losses.

For example, it is ensuring employers are aware that commonly controlled companies share joint-and-several liability for a sister company's pension woes. In late 1989, the PBGC prevented the sale of Sharon Steel Corp.'s ailing steel unit to investors. If the sale had gone through, healthy members of Sharon's control group would have escaped potential liability for the steel company's pension underfunding.

A newly reorganized Sharon Steel later agreed to pay its plan $65 million in overdue pension contributions while former control group members agreed to back future funding requirements.

Also, the agency nearly negotiated a solution to Eastern's underfunding problem, but failure to agree on collateral caused the collapse of a potential deal with parent company Continental Airlines Holdings Inc. Continental then filed for protection from creditors under the Federal Bankruptcy Code.

The PBGC's top 50 list has elicited stern rebukes from business. The National Association of Manufacturers termed the list as "extremely misleading and potentially damaging."

The list did not appear to have the methodological problems that drew sharp criticism last year, such as inclusion of foreign and executive compensation plans. But employers still were upset because the list did not take into account a company's financial condition or its overfunded plans, and because of the agency's use of a 7.25% discount rate for valuing liabilities, which is lower than that used by many companies.

Navistar International Corp., Chicago, said in a release that "the PBGC's methodology with respect to the calculation of the funding status of Navistar's insured plans is flawed and misleading."

The company said the agency looked at plans at a termination basis instead of an ongoing basis, and ignored the company's cash-matched and duration-matched dedicated bond portfolio. Nor did the list reflect Navistar has reduced its pension underfunding to $51 million as of Oct. 31, down from $1 billion in 1982.

In a statement, James River Corp., Richmond, Va., said more than 80% of its plans are fully funded, and the remainder are funded, on average, at a 90% level. The PBGC list, however, said James River was short $71 million on its $259 million liability for guaranteed benefits.

The list "causes unnecessary fear and concern for employees and retirees," said James Kenyon, a spokesman for Chrysler Corp., Highland Park, Mich., which also was on the list.

Mark Ugoretz, president of the ERISA Industry Committee, Washington, warned the PBGC list may cause "ill will" among employers who have supported the agency's efforts in the past.

But the list does include a number of companies operating under Chapter 11 of the bankruptcy code, such as Pan Am; CF&I Steel Corp., Lone Star Technologies Inc., and Carter Hawley Hale Stores.

Mr. Lockhart warned employers are being "somewhat shortsighted" in their objections to the list because the burden of paying for unfunded guaranteed benefits falls on them.

To further bolster the PBGC's loss prevention strategy, the agency is creating a new corporate finance and negotiations department, to be headed by Diane E. Burkley, the agency's deputy executive director and chief negotiator.

The team of 10 lawyers and five financial analysts will identify and monitor firms with underfunded pension plans and will try to "work out solutions to serious underfunding before a company's problems become overwhelming," Ms. Burkley said in a statement.

The creation of the group also is expected to save the PBGC $1.2 million a year in fees paid to outside lawyers and investment houses.

While the PBGC is taking steps to avoid another increase in the premium it charges employers that maintain defined benefit plans, a boost might be inevitable if the agency's deficit keeps mounting. President Bush's budget warns: "The PBGC's long-term deficit can be expected to grow unless the program can increase its recoveries from companies terminating underfunded plans or can increase its premiums, particularly the variable one, further."

The flat-rate premium is $19 per participant. Poorly funded plans also are charged a variable-rate premium of $9 per $1,000 of underfunding, up to a combined ceiling of $53 per participant. ■

PBGC problem list

Largest unfunded guaranteed liability	Unfunded guaranteed liability $ millions	Funding ratio
Chrysler	2,597	66.2
General Motors	1,021	94.9
Pan Am	621	50.3

Lowest funding ratios	Unfunded guaranteed liability $ millions	Funding ratio
Blaw Knox	79	31.5
Jesup Group	81	33.5
Atlantic Steel	37	37.9

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Approval

Continued from page 3
New York University's Leonard N. Stern School of Business.

"The Wunsch System is an important experiment in increasing market efficiency with the potential benefits of creating market liquidity and decreasing transaction costs," wrote Thomas B. Hazuka, executive vice president, Mellon Capital Management Inc., San Francisco.

Other institutions expressing support for the proposal include Batterymarch Financial Management, Boston; Aetna Life Insurance Co., Hartford, Conn.; Wells Fargo Nikko Investment Advisors, San Francisco; BEA Associates Inc., New York; and the University of California, Berkeley.

Five U.S. stock exchanges — including the New York and American exchanges — filed comments with the SEC, arguing against the start of the trading system.

The stock exchanges fear the system could cut out the role of the market specialist, who maintains a closed book of pending bids and offers, and would trim the fat from bid-offer spreads.

Comments to the SEC clearly show the pressure felt by the exchanges. They argued the exemption sought by the Wunsch system was not intended for start-up operations, or that better standards for qualifying for the exemption were needed.

In addition, some argued the Wunsch system could attract sizable volume, and that its trading capacity exceeds that of the New York Stock Exchange.

The SEC rejected these arguments. Mr. Ketchum argued the system's initial plan of operation to trade only three times a week and its novel requirement that investors disclose their orders in advance to other market participants likely will result in low volume.

In addition, the SEC also rejected arguments from the exchanges that exempting Mr. Wunsch from registration rules would give it an unfair advantage and would permit it to "cherry pick" the best trades. The SEC also determined it would be impractical and too costly for Mr. Wunsch to register as an exchange, as the stock exchanges urged.

Under the Wunsch trading system, an open electronic book would record proposed buys and sells until auction time, which would be either before or after normal trading hours. Orders then would be cut off, and a single price would be set at the level at which the greatest volume of shares would trade. Bids entered above the auction price, and offers below, would be entitled to trade at that price. Bids or offers withdrawn prior to the auction suffer a double commission.

The system initially is intended for institutional investors and broker-dealers trading for their account who do not require immediacy for their trades.

Mr. Wunsch expects to start in mid-March to early April, with auctions occurring at 5 p.m. on Mondays and Wednesdays and 9 a.m. on Fridays.

Eventually, the number of auctions could be increased and the system could be expanded to individuals trading through their brokers.

The SEC's approval represents an amazing leap forward for Mr. Wunsch, who, just three years ago, toiled as a theoretician in Kidder, Peabody & Co. Inc.'s financial futures department in New York. But he already was developing a following among executives of some of the nation's largest pension funds for his writings on sunshine trading and creating a single price auction trading system.

Investors pay a high price in market impact and commission costs for immediacy, Mr. Wunsch argues. Mr. Wunsch estimates about half of the trades executed do not require immediacy, particularly those done by index funds and other "informationless" traders. Those investors requiring immediate execution still would trade on the continuous markets offered by the stock exchanges.

Failing to raise a capital commitment from Kidder, Mr. Wunsch struck out on his own a year ago. He has labored to build a prototype trading system with the help of volunteer support from computer experts on the weekends and in the evenings.

Mr. Wunsch has hired several marketing and sales and systems people, but they all have toiled for sweat equity, forgoing current wages for a share of future revenue and the opportunity to work at home. At Wunsch Auction Systems, it's Mr. Wunsch — a former English major at Princeton University and highly skilled rock climber — who answers the phone.

Mr. Wunsch received a major boost when BT Brokerage Corp., a unit of Bankers Trust Co., agreed to settle and clear trades and determine the eligibility of institutions using the system.

In addition, this fall, about 125 institutions and broker-dealers agreed to serve as "beta sites," executing paper trades through the system. ■